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Philippines

Solid Wood Products

Annual

2004

Approved by:
David C. Miller
FAS Manila

Prepared by:
Perfecto G. Corpuz

Report Highlights:
Increased non-solid wood use will result in more imports of tropical hardwood lumber, veneer and plywood through 2005 while tropical hardwood log imports are expected to decline during the period. A large GRP budget deficit coupled with renewed weakness of the Peso, are expected to dampen any significant increase in imports. As a result, the combined imports of tropical hardwood lumber, veneers and plywood in 2004 are expected to remain flat compared to the 2003 level.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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[RP]

Executive Summary

Official data on forest timber production is not readily available, but the Philippine forest resource is expected to continue its gradual decline through 2005. Despite the limited log supply of the remaining Philippine forests, tropical hardwood log imports are likely to decline in 2004 and 2005 as a result of the expected decline in the number of active sawmills during the period. Tropical hardwood lumber imports over the next two years are expected to increase as demand for veneers is likely to increase during the period. Solid wood demand is expected to decrease through 2005, while demand for hardwood veneer and hardwood plywood is expected to rise. The number of wood processing plants (veneer and plywood) is likely to grow slightly, and although hardwood veneer and hardwood plywood production is expected to increase through 2005, imports of the same are also expected to rise. Despite the predicted economic growth during the period, overall imports of forest products are expected to remain flat compared to the previous year's level due to the weakness of the Peso and the serious GRP budget deficit. The fiscal gap is likely to deter investment, and consequently constrain any significant increase in demand by the major domestic wood-consuming industries through 2005. Most forest product imports over the next two years are likely to come from Malaysia, enhanced by the lower tariffs under the Common Effective Preferential Tariff Rates (CEPT) of the ASEAN Free Trade Agreement (AFTA).

Production

As current forestry statistics from the Department of Environment and Natural Resources - Forest Management Bureau (DENR-FMB) are not yet available, the majority of the forestry data in this report are Post estimates based on 2002 and partial 2003 figures from the DENR-FMB. Estimates by Post, therefore, are very rough and, in general terms, follow the declining trend of previous reports, consistent with the shrinking forest area of the Philippines.

Post expects Philippine forest area to have declined to roughly 5.0 million hectares this year or approximately 16 percent of the 30 million hectares of total land area of the country. Dipterocarp forests (tropical rainforests) are estimated to cover about 3.0 million hectares of which about 800,000 thousand hectares are old growth or virgin forests. The National Mapping and Resource Information Authority (NAMRIA) has recently completed its assessment on the state of Philippine forests, but the report has not yet been released. Although there has been a logging ban on all old-growth forest area since 1992, data in 2004 is expected to show that virgin forests have slightly declined from the 1992 level due to suspected violations of this prohibition. Residual forests are estimated to likewise have fallen below 2.0 million hectares during the year. The volume of timber left in commercial forests is likewise expected to have declined in 2004 from the previous year's level.

In 2002, under the Industrial Forest Plantation Management Agreement (IFMA) and the Industrial Tree Plantation Lease Agreement (ITPLA) schemes, there were 193 agreements covering about 696,000 hectares according to DENR-FMB data. The number of logging concessionaires or Timber License Agreement (TLA) holders in 2002, on the other hand, were 17, covering an area of 741,000 hectares with an annual allowable cut (AAC) of 171,000 cubic meters. TLA holders are expected to decline both in number as well as their coverage area in 2003 onwards. Nearly 100 percent of Philippine forests are government owned and all private forests are located on titled lands.

TLAs operate in natural forests while IFMAs and ITPLAs operate on tree plantation sites. The DENR has suspended the renewal of TLAs and is encouraging TLA holders to convert their TLAs into IFMAs. Technically, an IFMA is a production contract entered into between the

DENR and a qualified applicant wherein the former grants the latter the exclusive right to develop, manage, protect and utilize a specified area of forestland and forest resources for a period of 25 years. This contract may be renewed for another 25 years, consistent with the principle of sustainable development and in accordance with an approved comprehensive development and management plan, and under which both parties share in its produce. A TLA, on the other hand, is a privilege granted by the State to a person to utilize forest resources within a forestland, with the right of possession and occupation thereof, to the exclusion of others, except the government. A TLA is then obliged to develop, protect and rehabilitate the same in accordance with the terms and conditions set forth in the agreement. Production sharing is the key difference between the IFMA and a TLA. This is consistent with the DENR's promotion of the Community Based Forest Management Program (CBFM) concept as the country's national strategy for the sustainable development of its forestland and its resources. A CBFM allows participating communities and organizations in the reforestation of the uplands while benefiting from its resources through proper management.

VOLUME OF TIMBER IN COMMERCIAL FOREST – 2004					
(IN 1,000 CUM)					
Forest Type	Hardwoods	CFW*	Softwoods	Others	TOTAL
Dipterocarp (Tropical Rainforests)					
Old-Growth	113804	60867	2773	21340	198784
Residual	150000	90000	3000	35000	278000
Pine	70	15	19000	25	19110

*Construction and furniture wood

Source: Post estimates

Data on deforestation and reforestation rates are not yet available, but Post believes the former does outpace reforestation efforts. The entry of logging and mining companies into Philippine forests significantly erode forest areas, and as a result, the occurrence of flash floods and erosion are common during heavy rainfall. Limited GRP resources constrain reforestation efforts; the rate of deforestation is estimated at about 50,000 hectares annually.

In response, the DENR issued in June 2003 the implementing rules and regulations of Republic Act No. 9175 or the Chainsaw Act of 2002. The guidelines spell out measures to regulate ownership, possession, sale, importation and use of chainsaws, as well as specify the appropriate penalties for the corresponding violations. The order, however, is expected to have minimal impact on the current deforestation rate.

Roundwood harvest is expected to decline in 2005 although at a slower pace compared to previous years as overall timber stand decreases. Roundwood harvest numbers were raised in 2003 onwards to account for pulpwood, poles ands piles. The decline through 2005 is based on the expected decline in forest area during the period although some sporadic logging increases may be realized. Tropical hardwood log production in 2003 reached 464,000 CUM according to the DENR-FMB, up from the 403,000 CUM log production level in 2002, with the majority coming from the southern island of Mindanao. There are no temperate hardwood trees in the Philippines, and log output in 2003 likely increased due to the harvesting of plantation forests, which have faster growing species. As a result, log production is expected to decline through 2005. The following production tables make use of DENR-FMB and Post estimates.

2003-2005 PHILIPPINE ROUNDWOOD SITUATION		
(1,000 Has., 1,000 CUM)		
	Forest	Roundwood
Year	Area	Harvest
2002	5050	541
2003	5025	500
2004	5000	475
2005	4750	450

Source: DENR-FMB and Post estimates

Based on DENR-FMB data, in 2002 there were only 36 active sawmills in the Philippines, down from 44 the previous year. The active sawmills in 2002 had an aggregate daily rated capacity (DRC) of 2,000 CUM and an annual log requirement (ALR) of 622,000 CUM. Lumber production declined to 163,000 CUM in 2002 from 197,000 CUM in 2001, but recovered to its 2001 production level of 197,000 CUM in 2003, according to the DENR-FMB. Tropical hardwood lumber output increased last year due to higher log production during the period. Lumber production will likely contract through 2005 consistent with the expected decline in the number of active sawmills during the period.

PHILIPPINES: REGULAR SAWMILLS				
(IN 1,000 CUM)				
Year	Active	Daily Rated	Annual Log	Lumber
	Mills	Capacity	Requirement	Produced
2001 (Final)	44	1	777	197
2002 (Final)	36	2	622	163
2003 (Revised)	*35*	*1*	*600*	197
2004 (Estimate)	*34*	*1*	*600*	*170*
2005 (Forecast)	*33*	*1*	*600*	*165*

Source: DENR-FMB and Post estimates

In 2002, veneer plants numbered 16 (down from 19 in 2001) with a DRC of 975,000 CUM and ALR of 577,000 CUM. Veneer production in 2002 was 205,000 CUM (down from 255,000 CUM in 2001) but increased to 245,000 CUM in 2003, according to the DENR-FMB. The number of veneer plants increased in 2003 compared to the previous year's level but will likely stay flat in 2004 as investors are expected to remain cautious given the sluggish economy. The number of veneer plants in 2005, however, is again expected to increase due to strong demand. Veneer production is expected to post a slight increase this year and modestly expand in 2005, enhanced by the expected shift away from solid wood use during the period.

PHILIPPINES: VENEER PLANTS				
(IN 1,000 CUM)				
Year	Active	Daily Rated	Annual Log	Veneer
	Mills	Capacity	Requirement	Produced
2001 (Final)	19	938	559	255
2002 (Final)	16	975	577	205
2003 (Revised)	*18*	*980*	*600*	245
2004 (Estimate)	*18*	*980*	*600*	*250*
2005 (Forecast)	*20*	*1000*	*650*	*280*

Source: DENR-FMB and Post estimates

Plywood production in 2002 increased to 350,000 CUM from the 292,000 level in 2001 due to increased veneer output during the year. Plywood plants, which numbered 34 in 2002 (up from 30 in 2001), had a DRC of 2,264,000 CUM and an ALR of 1,533,000 CUM during the year. According to the DENR-FMB data, plywood production in 2003 declined to 272,000 CUM from its 2002 level, likely due to increased plywood imports during the year. The number of plywood plants is expected to remain flat compared to the 2002 level although plywood output is expected to post slight increases through 2005, reflective of the increasing veneer production during the period.

PHILIPPINES: PLYWOOD PLANTS				
(IN 1,000 CUM)				
Year	Active	Daily Rated	Annual Log	Plywood
	Mills	Capacity	Requirement	Produced
2001 (Final)	30	1818	1242	292
2002 (Final)	34	2264	1533	350
2003 (Revised)	*34*	*2300*	*1550*	272
2004 (Estimate)	*34*	*2300*	*1550*	*275*
2005 (Forecast)	*34*	*2300*	*1550*	*280*

Source: DENR-FMB and Post estimates

Trade

Philippine imports of logs, lumber, veneer and plywood in 2003, collectively declined 52 percent to 762,000 CUM from 1.59 million CUM in 2002, as a result of the weak performances of major wood-consuming industries, particularly construction. Last year, log imports comprised 46 percent of overall imports of wood products (logs, lumber, veneer and plywood), lumber 36 percent, veneer 12 percent, and plywood 6 percent. Imports of logs and lumber declined during the year while veneer and plywood imports increased from 2002 levels.

Tropical hardwood log imports accounted for 86 percent of all imported logs in 2003. Imports of tropical hardwood logs are expected to decline from the 2003 level this year through 2005 as imports of semi-processed (lumber) and processed (veneer and plywood) forest products are expected to increase during the period. Tropical hardwood log imports during the period are likely to be dominated by New Zealand and the Solomon Islands.

Tropical hardwood lumber, veneer and plywood imports are all predicted to register modest increases during the period. Tropical hardwood lumber imports will increase as demand for hardwood veneer, and consequently hardwood plywood, is expected to increase during the period. Imports are likely to come from traditional sources such as Malaysia, New Zealand and Brazil, the dominant sources of tropical hardwood lumber imports in 2003.

The majority of hardwood veneer imports originated from Malaysia and New Zealand in 2003, and both countries are expected to dominate veneer imports over the next two years. Demand for hardwood veneer is expected to be the strongest among the monitored forest products as the shift away from solid wood use is expected to accelerate starting 2004. Despite the expected veneer production increase in 2004 and 2005, imports are expected to continue increasing in the next two years.

Like veneer imports, hardwood plywood imports are likewise expected to register increases through 2005, despite rising plywood production during the period. Expected to continue dominating plywood imports through 2005 are Malaysia and Indonesia. NSO data does not specify whether the face veneer is hardwood or coniferous, and imported plywood is assumed to be 100 percent hardwood.

Tropical hardwood logs, lumber, veneer and plywood imports combined, are predicted to remain fairly flat in 2004 compared to the combined 2003 level. An import summary for logs, lumber, veneer and plywood is provided below while more detailed trade matrices are provided in the Statistical Section.

PHILIPPINE IMPORTS OF WOOD PRODUCTS					
(in Cubic Meters)				% Change	
	2001	2002	2003	01/02	02/03
Total Logs	542,261	425,034	347,387	-21.62	-18.27
Softwood	53,404	49,737	47,820	-6.87	-3.85
Hardwood	488,857	375,297	299,567	-23.23	-20.18
Tropical Hardwood	483,819	370,062	299,330	-23.51	-19.11
Temperate Hardwood	5,038	5,235	237	3.91	-95.47
Total Lumber	370,809	1,056,834	275,318	185.01	-73.95
Softwood	90,921	84,679	852	-6.87	-98.99
Hardwood	279,888	972,155	274,466	247.34	-71.77
Tropical Hardwood	265,851	933,122	208,643	250.99	-77.64
Temperate Hardwood	14,037	39,033	65,823	178.07	68.63
Total Veneer	77,059	78,411	92,949	1.75	18.54
Softwood	4,081	8,563	11,634	109.83	35.86
Hardwood	72,978	69,848	81,315	-4.29	16.42
Tropical Hardwood	72,512	68,295	70,449	-5.82	3.15
Temperate Hardwood	466	1,553	10,866	233.26	599.68
Total Plywood	8,242	24,875	46,840	201.81	88.30

Softwood	0	0	0	N/A	N/A
Hardwood	8,242	24,875	46,840	201.81	88.30
Tropical Hardwood	7,741	22,597	41,472	191.91	83.53
Temperate Hardwood	501	2,278	5,368	354.69	135.65
T O T A L	998,371	1,585,154	762,494	58.77	-51.90

Source of Data: National Statistics Office

Philippine exports of logs, lumber, veneer and plywood, on the other hand, collectively increased 17 percent to reach 140,000 CUM in 2003, up from the 120,000 CUM export levels in 2001 and 2002. Exports of logs, veneers and plywood in 2003 declined from the previous year's level, while lumber exports dramatically increased by 32 percent.

PHILIPPINE EXPORTS OF WOOD PRODUCTS					
(in Cubic Meters)				% Change	
	2001	2002	2003	01/02	02/03
Total Logs	5,366	1,426	18	-73.43	-98.74
Softwood	5,360	1,426	9	-73.40	-99.37
Hardwood	6	0	9	-100.00	N/A
Tropical Hardwood	6	0	9	-100.00	N/A
Temperate Hardwood	0	0	0	N/A	N/A
Total Lumber	105,102	90,610	119,414	-13.79	31.79
Softwood	7,641	44	0	-99.42	-100.00
Hardwood	97,461	90,566	119,414	-7.07	31.85
Tropical Hardwood	97,461	90,566	119,414	-7.07	31.85
Temperate Hardwood	0	0	0	N/A	N/A
Total Veneer	2,817	5,982	4,449	112.35	-25.63
Softwood	589	3,347	1,526	468.25	-54.41
Hardwood	2,228	2,635	2,923	18.27	10.93
Tropical Hardwood	2,228	2,635	2923	18.27	10.93
Temperate Hardwood	0	0	0	N/A	N/A
Total Plywood	6,834	21,909	16,376	220.59	-25.25
Softwood	0	0	0	N/A	N/A
Hardwood	6,834	21,909	16,376	220.59	-25.25
Tropical Hardwood	6,834	21,909	16,376	220.59	-25.25
Temperate Hardwood	0	0	0	N/A	N/A
T O T A L	120,119	119,927	140,257	-0.16	16.95

Source of Data: National Statistics Office

Duties for selected wood product imports under the Common Effective Preferential Tariff Rates (CEPT) of the ASEAN Free Trade Agreement (AFTA) are lower than MFN tariffs, and this represents a significant challenge in increasing U.S. wood sales to the Philippines. The lower tariffs are expected to benefit forest product imports from Malaysia and Indonesia. The table below outlines the differences in import duties under both schemes for certain wood products.

Besides the corresponding tariff, a 10 percent VAT is collected on processed forest product imports. There are no known export taxes or export subsidies for Philippine forest and wood products.

PHILIPPINE TARIFF SCHEDULE FOR SELECTED WOOD PRODUCTS					
HS Code	Description	Year	Rate of Duty (%)		ASEAN Countries
			MFN	CEPT	Enjoying Concession
4401	Fuelwood	2004	3	0	Except LA and MM.
		2005	3	0	Except LA and MM.
4403	Roundwood	2004	Free	0	All.
		2005	Free	0	All.
4404	Hoopwood for tool	2004	3	0	Except LA.
	handles, sticks, etc.	2005	3	0	Except LA.
4405	Wood wool	2004	1	0	All.
		2005	1	0	All.
4406	Railway ties/sleepers	2004	3	0	All.
		2005	3	0	All.
4407	Sawnwood exceeding	2004	7	3	All.
	6 mm (Tropical hardwood)	2005	7	3	All.
44071000	Coniferous sawnwood	2004	3	3	All.
		2005	3	3	All.
4408	Veneer sheets less				
	than 6mm thickness				
440810	Coniferous	2004	3	0	Except for KH and LA.
		2005	3	0	Except for KH and LA.
44081020 to	Others	2004	7	3	Except for KH and LA.
44081090		2005	7	3	Except for KH and LA.
44083190	Tropical hardwood	2004	7	3	Except KH.
		2005	7	3	Except KH.
44083910	Jelutong wood slats for	2004	3	0	All.
	pencil manufacturing	2005	3	0	All.
4409	Mouldings	2004	7	5	All.
		2005	7	5	All.
4410	Particleboard	2004	15	5	All.
		2005	15	5	All.
4411	Fiberboard	2004	15	5	All.
		2005	15	5	All.
4412	Plywood and other	2004	15	5	All.
	wood panels	2005	15	5	All.
4413	Densified wood and	2004	3	0	All.
	wood blocks	2005	3	0	All.
4414	Wooden frames for	2004	10	5	All.
	paintings	2005	10	5	All.
4415	Packing cases, boxes,	2004	7	5	All.
	pallets, etc.	2005	7	5	All.
4416	Casks, barrels, vats, etc.				
44160010	Staves	2004	3	0	All.

		2005	3	0	All.
44160090	Others	2004	5	0	All.
		2005	5	0	All.
4417	Tools,handles, shoe lasts,				
	etc.				
44170010	Boot or shoe lasts	2004	3	0	All.
		2005	3	0	All.
44170090	Others	2004	10	5	All.
		2005	10	5	All.
4418	Builders joinery and	2004	5	0	All.
	carpentry of wood	2005	5	0	All.
4419	Tableware/kitchenware	2004	5	0	Except KH.
		2005	5	0	Except KH.
4420	Wood marquetry and	2004	10	5	Except KH.
	inlaid wood	2005	10	5	Except KH.
4421	Other articles of	2004	10	5	Except KH.
	wood	2005	10	5	Except KH.
44219010	Spools,bobbins, etc.	2004	3	0	Except KH.
		2005	3	0	Except KH.

Notes: LA= Laos, MM = Burma, VN= Vietnam, KH- Cambodia

Source: Tariff and Customs Code of the Philippines

The shrinking Philippine forest resource would have signaled increased U.S. wood product imports this year had it not been for the renewed weakness of the Peso and the weak performances of the major Philippine wood consuming sectors (see MARKET SEGMENT ANALYSIS). GRP economists expect the foreign exchange rate to stabilize at an average P54-P56 against the U.S. dollar in 2004 although some private analysts predict a higher annual average rate of P56-P57.

Market Segment Analysis

Last year, the National Economic and Development Authority (NEDA) reported that Philippine GNP grew 5.5 percent, up from the previous year’s level of 5.2 percent, largely buoyed by strong dollar remittances from overseas Filipino workers (OFWs). GDP growth, on the other hand, slowed to 4.5 percent last year from 4.6 percent in 2002, falling within the government’s official forecast of 4.2-5.2 percent. GDP in 2003 was at P1,093 billion ($19.878 billion). The growth in 2003 was broad-based with most of the economic sub-sectors in services, agriculture and industry (except public construction), growing from their 2002 levels. Parallel to this production growth is the expansion in private consumption which grew 5.1 percent, the highest growth posted since 1990, driven by the double-digit increases in demand in transportation and telecommunications (12.8 percent), utilities (5.0 percent) and food (4.7 percent).

The NEDA expects the domestic economy to grow from 4.9-5.8 percent this year, driven by electronics and agricultural exports as the global economy improves. The International Monetary Fund (IMF), on the other hand, projects GDP growth at 4.0-4.5 percent, but expects the country to be at the tail end among Asia's emerging economies. The Asian Development Bank (ADB), meanwhile, expects Philippine GDP growth at 5.0 percent in both 2004 and 2005 due to higher consumer spending, improved weather conditions and improved overseas demand for Philippine products, particularly electronics. Both the IMF and the ADB, however, have expressed serious concern over the country's fiscal performance and increasing debt levels. Total public debt is currently estimated at $100 billion and debt servicing is the dominant expenditure of the GRP.

A. Construction Sector

The Philippine construction industry in 2003 contracted 5.9 percent from the previous year's level as the GRP drastically reduced expenditures on capital outlays to contain the fiscal deficit. According to data from the National Statistical Coordinating Board (NSCB), the local construction industry's gross value added (GVA) declined from P59.15 billion ($1.076 billion) in 2002 to P55.68 billion ($1.012 billion) last year. While investment in private construction managed to grow during the year, it was not enough to offset the drop in public construction, which declined 6.6 percent, according to data from the Construction Industry Authority of the Philippines (CIAP).

Public construction in 2003 dropped 17.9 percent, accelerating its fall from the 6.0 percent decline in 2002. Private construction activities, on the other hand, grew at a slower rate (7.4 percent) in 2003 compared to the 9.4 percent expansion the year before. According to the CIAP, demand for private construction, particularly for housing, was influenced by some of the financial reforms such as: the extension by the Bangko Sentral ng Pilipinas (Philippine Central Bank) of its rediscounting facility to, among others, socialized and low cost housing; issuance of bonds by the Home Guaranty Corporation to support guarantee operations; increase in loan ceilings for socialized and low-cost housing to keep pace with the general escalation of prices; and the reduction of interest rates by the Housing Development Mutual Fund.

Data on public building construction in 2003 is not yet available although it is expected to decline from the 2002 level. The number of buildings constructed or altered by the private sector last year, on the other hand, increased by 4.8 percent from the 2002 level, with aggregate floor area rising by 6.5 percent during the same period, according to the NSO. The overall value of private buildings constructed last year, however, declined (4.3 percent) from the value of buildings constructed and altered in 2002. The average cost per square meter of private buildings constructed in 2003 likewise declined to about P6,042 ($109.85) from the P6,722 ($122.21) average cost recorded the previous year. Non-residential buildings in 2003 had a higher average cost per square meter at P6,187 ($112.49) compared to the average cost of P5,281 ($96.01) for residential buildings and P3,380 ($61.45) for altered or repaired buildings.

NUMBER, FLOOR AREA, AND VALUE
BY TYPE OF PRIVATE BUILDING CONSTRUCTION:
(Value in billion Pesos, floor area in thousand sq.m.)

Year	Residential			Non-Residential			Additions/ Alterations			TOTAL		
	No.	Floor Area	Value	No.	Floor Area	Value	No.	Floor Area	Val.	No.	Floor Area	Value
2001	50,276	5,883	28.77	8,214	4,557	79.85	15,596	615	8.13	74,086	11,056	166.75
2002	63,516	7,080	36.38	10,441	5,090	41.28	17,514	611	8.26	91,471	12,781	85.92
2003	66,308	7,968	42.08	10,715	5,032	31.13	18,867	2,194	7.41	95,890	13,608	82.21

Note: Totals may not add up due to rounding.

Source: National Statistics Office

The country's current housing construction shortfall is estimated to be roughly around 4 million units. With a population growing at 2.4 percent annually, the country would need to construct around 700,000 units a year for the next 20 years to meet the population's housing requirements.

As noted in previous reports, the acceptability of U.S. style timber frame construction is low in the Philippines due to comparatively high prices. In general terms, only the affluent, which make up a very small percentage of the Philippine population, are financially capable of having a residence constructed with wood materials. Despite the positive growth figures in 2003, income distribution remains highly skewed with about two-thirds of the country's income going to the top 30 percent of Philippine families while the low 30 percent receive less than 8 percent. NEDA estimates that it would take an economic growth of at least 7 percent for the next seven years to cut the current poverty level from 34 percent of Filipino families to 17 percent. Rural-urban disparities also exist. Roughly half of the Philippine population resides in rural areas where average living standards are considerably lower and poverty levels are significantly higher. Because of this, migration to the urban centers by rural folk has grown considerably.

In Metro Manila alone, media reports of an ADB study estimates that there are over 3.4 million people living in slum areas, with about half a million people living along rivers and railway rights-of-way and other dangerous areas. The average household size in depressed settlements is 6.75 while the average for Metro Manila is 4.62. Squatter households have an average of 7.1 persons. The overall average Philippine household size is five, according to the same study.

The main focus of the GRP's housing program is to provide homes for the urban poor and as a goal, aims to provide 150,000 mass housing units for the urban poor yearly. The GRP provides economic and socialized housing units to low-income groups with the former costing between P151,000 to P375,000 ($2,745 to 6$,818) while socialized housing units cost below P151,000 ($2,745). Since 2003, however, sales of economic and socialized housing units have reportedly declined in contrast to sales of medium-cost housing units or those being sold by private developers below P2 million ($36,363), which have been increasing.

In addition to financial status, there is a common impression that wood does not perform as well as cement or concrete as residential material under tropical conditions. This partly explains why residential buildings generally have a lower average cost of construction compared to non-residential structures.

The only available data from the NSO on residential units relative to the construction material used dates back to 2000. During that year, the Philippine population (76.5 million) occupied 14.9 million households. Only 22 percent of the total households had outer walls made from wood. The majority or 30 percent had concrete, brick or stone walls. Another 18 percent of the total households had their outer walls partially made from wooden materials, while only 2 percent of the total number of households had roofs made from wood.

Number of Occupied Housing Units by Construction Materials of the Outer Walls and Roof: 2000	

		Construction Materials of the Roof							
Construction Materials of the Outer Walls	Total No. of Occupied Housing Units	Galvanized Iron/ Aluminum	Tile/ Concrete/ Clay Tile	Half Galvanized Iron/ Half-Concrete	Wood	Cogon/ Nipa/ Anahaw*	Makeshift Salvaged/ Improvised Materials	Asbestos/ Others	Not Reported
T O T A L	14,891,127	10,066,730	138,050	689,226	306,121	3,315,374	107,786	57,300	210,540
Concrete/brick/ stone	4,587,978	4,323,530	100,987	67,627	10,657	73,176	2,934	9,067	-
Wood	3,381,339	2,263,524	10,670	70,193	227,549	786,637	12,031	10,735	-
Half concrete/ brick/ stone and half wood	2,816,272	2,146,675	17,607	483,460	23,369	137,000	3,995	4,166	-
Galvanized iron/ aluminum	144,234	118,741	1,307	13,389	3,827	6,159	539	272	-
Bamboo/sawali/ cogon/nipa*	3,399,180	1,044,744	5	43,592	35,625	2,238,453	15,775	20,852	134
Asbestos	8,823	5,623	1,321	493	262	-	-	1,121	3
Glass	4,895	3,594	669	260	121	-	-	249	2
Makeshift salvaged/ Improvised materials	181,769	66,216	15	3,030	1,212	38,497	70,817	1,884	98
Others/not reported	352,293	85,186	4,536	6,466	2,948	33,167	1,129	8,634	210,227
No walls	14,344	8,897	933	716	551	2,285	566	320	76

*Indigenous palms used as roofing and wall materials.

Source: National Statistical Coordinating Board

Comparative retail prices of selected construction materials in December 2003 and March 2004 are provided below. The majority of construction materials posted price increases from December 2003 to March 2004. Only prices of sand, 1-sided plywood, tanguile door panels and load-bearing hollow blocks declined in March 2004 compared to their December 2003 levels. Steel prices increased significantly.

Selected Construction Materials Wholesale Price Index in the National Capital Region			
December 2003 and March 2004, in Pesos			
	2003	2004	Price
Item	December	March	Change
			(%)
Sand, white, cu.m.	346.25	332.71	-3.91
Cement, Portland, 40 kg.	126.55	130.90	3.44
Tanguile, rough, kiln-dried, bd. ft.	25.58	28.25	10.44
Apitong, rough, kiln-dried, bd. ft.	31.71	33.71	6.31
Plywood, ordinary, 1-sided, 1/4"x4'x8'	255.78	255.38	-0.16
Plywood, ordinary, 2-sided, 1/4"x4'x8'	245.00	250.00	2.04

Door panel, tanguile, piece	2340.00	2260.00	-3.42
Parquet flooring, tanguile, sq. ft.	27.31	27.81	1.83
Jalousie window glass, opaque, 1/4" thick	34.00	34.00	0.00
Jalousie window glass, clear, 1/4" thick	50.00	50.00	0.00
Concrete hollow block, load bearing, 6"x8"x16"	9.34	9.31	-0.32
Concrete hollow block, non-load bearing, 6"x8"x16"	6.47	6.72	3.86
Angle bar, mild steel, 1/4"x1"x20'	320.00	440.00	37.50
Flatbars, mild steel, 1/4"x1"x20'	136.00	178.00	30.88
GI sheet, plain, G-26, 32"x8", sheet	207.04	224.70	8.53

Source: National Statistics Office

For the first quarter of 2004, the NSCB notes that the construction industry showed signs of recovery as it grew 6.5 percent following its marginal growth of 0.3 percent in the same period in 2003. The growth came mainly from the expansion in commercial/retail trade establishments.

B. Furniture and Interiors Sector

Information regarding Philippine furniture production is not readily available. However, in view of the weak performance of building construction and alterations last year, coupled with the decline in furniture exports in 2003, the domestic furniture and interiors market likely contracted last year.

Overall Philippine furniture exports in 2003 declined 12.0 percent from the previous year's level after posting a 6.5 percent increase in 2002. Exports of wooden furniture, the dominant furniture export, declined 6.1 percent during the same period. Except for plastic furniture and those made form buri (an indigenous palm), exports of all furniture-types in 2003 declined from the 2002 levels. Exported wooden furniture is mainly made from tropical hardwood. Instead of using solid wood, however, many furniture manufacturers are using veneers, particle board and medium density fiberboard.

PHILIPPINE EXPORTS OF FURNITURE BY MATERIAL TYPE					
FOB VALUE IN US$ MILLION					
				% Change	
	2001	2002	2003	½	02/03
Rattan	91.98	96.94	86.66	5.39	-10.61
Wood	114.85	122.53	115.02	6.68	-6.12
Metal	39.84	40.94	36.28	2.76	-11.37
Stone	8.67	11.85	6.50	36.69	-45.12
Parts of Furniture	28.36	28.28	23.42	-0.29	-17.17
Buri Furniture	0.16	0.20	0.46	25.78	129.55
Furnishings	5.80	7.02	3.18	21.04	-54.77
Bamboo	2.92	3.34	3.03	14.49	-9.35
Plastics	0.61	0.61	0.75	-0.16	22.78
Others	3.58	4.31	2.74	20.32	-36.40
TOTAL	296.77	316.01	278.04	6.48	-12.02

Source: Bureau of Export Trade Promotion, Department of Trade Industry

The United States continued to be the dominant destination of Philippine furniture exports in 2003, accounting for 63.6 percent of overall furniture exports. Following the United States are Japan and the United Kingdom with shares of 5.7 and 3.0 percent, respectively. Furniture exports to all major destinations last year declined from the 2002 levels except for Australia and Spain.

PHILIPPINE EXPORTS OF FURNITURE, BY DESTINATION					
FOB VALUE IN US$ MILLION					
				% Change	
	2001	2002	2003	½	02/03
U.S.	184.49	210.03	176.68	13.84	-15.88
Japan	26.97	20.06	15.85	-25.61	-21.00
France	7.87	6.00	5.84	-23.74	-2.71
Netherlands	7.08	5.61	5.24	-20.74	-6.65
U.K.	9.06	8.67	8.36	-4.29	-3.55
Australia	5.92	6.55	8.13	10.63	24.13
Spain	5.77	5.10	5.11	-11.67	0.20
Other	49.61	53.99	52.83	8.84	-2.15
TOTAL	296.77	316.01	278.04	6.48	-12.02

Source: Bureau of Export Trade Promotion, Department of Trade Industry

An official of the local furniture industry association reported late last year that domestic furniture makers expect the sector to grow by 5-6 percent in 2004, contingent on the performance of the US economy. The official noted that industry players are trying to develop new markets, particularly in the Middle East. Post considers the projected growth to be on the optimistic side, as the following developments are expected to hamper production in 2004.

Philippine furniture manufacturers are generally export-oriented, but most have small-scale operations and do not have the economies of scale to effectively compete with low-cost producers such as China and Vietnam. Quality is a major strength of Philippine furniture, and even though it is targeted at a certain market niche, Chinese and Vietnamese furniture quality is improving and competing effectively against the Philippines.

Increasing world crude oil prices and the resulting higher power costs are also expected to further weaken the competitiveness of Philippine furniture makers. Current electricity costs are already among the highest in the region. Complicating the situation is the need to increase the power supply base. The Department of Energy (DOE) has acknowledged the threat of a looming power crisis and in response, recently announced that two new plants will be built on Luzon island. Projected commissioning of both plants will be sometime in 2008. Recent oil and food price increases likewise will force labor to seek wage increases. The GRP reportedly will soon grant government workers a wage increase and private employers are expected to follow shortly.

Adequate supply of raw material also continues to be of major concern as imported wood product has become indispensable to ensuring the continuity of operations of some large furniture manufacturers. While this represents the best prospect for increased US forest and wood products sales to the Philippines, renewed weakness of the Peso is expected to dampen any significant import increase.

On the domestic market side, overall property development will likely remain weak in 2004 being an election-year, and the earliest time for a recovery would be 2005. The prime office space market likely will take the lead due to the growth of corporate demand for call-centers.

C. Material Handling Industry

Industrial output last year, according to the NSCB, accounted for 34.0 percent of GDP and contributed 1.0 percentage point to total GDP growth. The sector's GVA grew 3.0 percent last year to reach P372,048 million from the previous year's level of P361,167 million with all sub-sectors registering positive growth rates except construction. In the first three months of 2004, overall industry output expanded by 5.5 percent, with all sub-sectors posting positive growth rates compared to the same period last year. Mining led the first quarter industrial growth with a 21.0 percent expansion compared to the first quarter of 2003.

Manufacturing growth rate, on the other hand, slowed to 4.3 percent in the first quarter of 2004 from 5.3 percent a year ago. Year-on-year growth rate for 2003 was 4.2 percent. Growth in the first three months of this year was driven by the following sectors: food manufactures, machinery (except electrical), chemical and chemical products, beverages, and electrical machinery.

Plastic is the dominant packaging material while pallets are mainly wooden. Plastic pallets are sold locally but their use is minimal, mainly because they are more expensive than wooden pallets. There are no known crating standards in the Philippines, and eco-labeling and certification do not discourage the use of wood in pallets and packaging. Currently, the GRP is drafting new regulations to be implemented starting January 2005 for all wood packaging materials entering the country and used in international trade consistent with the requirements of the "Guidelines for Regulating Wood Packaging Material in International Trade (ISPM 15)", approved by the Interim Commission on Phytosanitary Measures (ICPM). The WTO has been notified accordingly.

Statistical Information

PSD Table						
Country	**Philippines**					
Commodity	**Tropical Hardwood Logs**				1000 CUBIC METERS	
	Revised	2003	Preliminary	2004	Forecast	2005
	Old	New	Old	New]	Old]	New]
Market Year Begin		01/2003		01/2004		01/2005
Production	250	415	200	375	0	325
Imports	360	299	300	275	0	260
TOTAL SUPPLY	610	714	675	650	0	585
Exports	0	9	0	0	0	0
Domestic Consumption	610	705	675	650	0	585
TOTAL DISTRIBUTION	610	714	675	650	0	585

Import Trade Matrix			
Country	Philippines		
Commodity	Tropical Hardwood Logs		
Time Period	Jan-Dec	Units:	K CUM
Imports for:	2002		2003
U.S.		U.S.	
Others		Others	
New Zealand	139	Solomon Island	126
Solomon Islands	136	New Zealand	107
Malaysia	39	Malaysia	44
PNG	39	PNG	16
Indonesia	6	Indonesia	4
Australia	4		
Total for Others	363		297
Others not Listed	7		2
Grand Total	370		299

Import Trade Matrix			
Country	Philippines		
Commodity	Tropical Hardwood Logs		
Time Period	Jan-Dec	Units:	K CUM
Imports for:	2002		2003
U.S.		U.S.	
Others		Others	
New Zealand	139	Solomon Island	126
Solomon Islands	136	New Zealand	107
Malaysia	39	Malaysia	44
PNG	39	PNG	16
Indonesia	6	Indonesia	4
Australia	4		
Total for Others	363		297
Others not Listed	7		2
Grand Total	370		299

PSD Table						
Country	Philippines					
Commodity	Tropical Hardwood Lumber				1000 CUBIC METERS	
	Revised	2003	Preliminary	2004	Forecast	2005
	Old	New	Old	New]	Old]	New]

Market Year Begin		01/2003		01/2004		01/2005
Production	190	197	185	170	0	165
Imports	935	209	950	225	0	250
TOTAL SUPPLY	1125	406	1135	395	0	415
Exports	85	119	85	90	0	100
Domestic Consumption	1040	287	1050	305	0	315
TOTAL DISTRIBUTION	1125	406	1135	395	0	415

Import Trade Matrix			
Country	Philippines		
Commodity	Tropical Hardwood Lumber		
Time Period	Jan-Dec	Units:	K CUM
Imports for:	2002		2003
U.S.	25	U.S.	33
Others		Others	
Malaysia	838	Malaysia	116
New Zealand	30	New Zealand	26
Brazil	18	Brazil	18
Indonesia	9	Singapore	7
Solomon Islands	5	Indonesia	3
Total for Others	900		170
Others not Listed	7		39
Grand Total	932		209

Export Trade Matrix			
Country	Philippines		
Commodity	Tropical Hardwood Lumber		
Time Period	Jan-Dec	Units:	K CUM
Exports for:	2002		2003
U.S.		U.S.	
Others		Others	
France	54	France	62
Taiwan	11	Taiwan	27
Canada	8	China	22
China	6	Canada	5
Singapore	4	Japan	1
Malaysia	3		
Total for Others	86		117
Others not Listed	5		2
Grand Total	91		119

PSD Table						
Country	Philippines					
Commodity	Hardwood Veneer				1000 CUBIC METERS	
	Revised	2003	Preliminary	2004	Forecast	2005
	Old	New	Old	New]	Old]	New]
Market Year Begin		01/2003		01/2004		01/2005
Production	55	245	55	250	0	280
Imports	75	70	80	75	0	80
TOTAL SUPPLY	130	315	135	325	0	360
Exports	3	3	3	3	0	3
Domestic Consumption	127	312	132	322	0	357
TOTAL DISTRIBUTION	130	315	135	325	0	360

Import Trade Matrix			
Country	Philippines		
Commodity	Hardwood Veneer		
Time Period	Jan-Dec	Units:	K CUM
Imports for:	2002		2003
U.S.		U.S.	
Others		Others	
Malaysia	55	Malaysia	62
New Zealand	10	New Zealand	6
		Indonesia	2
Total for Others	65		70
Others not Listed	5		1
Grand Total	70		71

Export Trade Matrix			
Country	Philippines		
Commodity	Hardwood Veneer		
Time Period	Jan-Dec	Units:	K CUM
Exports for:	2002		2003
U.S.		U.S.	
Others		Others	
Australia	2	Australia	2
Total for Others	2		2
Others not Listed	1		1

Grand Total	3		3	

PSD Table						
Country	Philippines					
Commodity	Hardwood Plywood				1000 CUBIC METERS	
	Revised	2003	Preliminary	2004	Forecast	2005
	Old	New	Old	New]	Old]	New]
Market Year Begin		01/2003		01/2004		01/2005
Production	198	272	195	275	0	280
Imports	27	41	30	45	0	55
TOTAL SUPPLY	225	313	225	320	0	335
Exports	22	16	20	20	0	20
Domestic Consumption	203	297	205	300	0	315
TOTAL DISTRIBUTION	225	313	225	320	0	335

Import Trade Matrix			
Country	Philippines		
Commodity	Hardwood Plywood		
Time Period	Jan-Dec	Units:	K CUM
Imports for:	2002		2003
U.S.		U.S.	1
Others		Others	
Malaysia	10	Malaysia	34
Indonesia	8	Indonesia	4
New Zealand	4	Singapore	2
China	1	Canada	2
Singapore	1	China	2
Total for Others	24		44
Others not Listed	1		3
Grand Total	25		47

Export Trade Matrix			
Country	Philippines		
Commodity	Hardwood Plywood		
Time Period	Jan-Dec	Units:	K CUM
Exports for:	2002		2003
U.S.		U.S.	3
Others		Others	
Japan	19	Japan	9
Taiwan	2	Taiwan	2

		China	1
Total for Others	21		12
Others not Listed	1		1
Grand Total	22		16